

Auditor-General of South Africa

# Umvoti Municipality - Audit report 2014-15

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Umvoti Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of Umvoti Municipality set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Material losses and impairments**

8. As disclosed in note 7 to the financial statements, material impairment to the amount of R2,31 million was incurred as a result of a write-off of irrecoverable consumer debtors.
9. As disclosed in note 37 to the financial statements, material electricity losses of 7,57 million KWH amounting to R5,78 million (2014: R5,10 million) was incurred as a result of technical and non-technical electricity distribution losses.

### **Material underspending of the capital budget**

10. As disclosed in note 20 to the financial statements, the municipality has materially underspent the municipal infrastructure grant by R3,96 million. This resulted in the municipality not achieving some of its planned service delivery targets for the year.

## **Report on other legal and regulatory requirements**

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for objective two: basic service delivery and infrastructure and objective three: local economic development presented in the annual performance report of the municipality for the year ended 30 June 2015.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were

well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. The material findings in respect of the selected objectives are as follows:

### Basic service delivery and infrastructure

#### Usefulness of reported performance information

##### Consistency of objectives, indicators and targets

###### Reported indicators and targets not consistent with planned indicators and targets

17. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 25% of the reported indicators and 26% of the reported targets were not consistent with those in the approved service delivery agreement. This was due to inadequate review of the annual performance plan by the accounting officer to ensure alignment to the service delivery budget and implementation plan (SDBIP).

### Changes to indicators and targets not approved

18. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council.

19. Material changes were made to the indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to inadequate review of the annual performance report by the accounting officer to ensure alignment to the SDBIP.

### Measurability of indicators

#### Indicators not well defined

20. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 20% of the indicators were not well-defined. This was because of inadequate review of the indicators by the accounting officer to ensure that they were clear and unambiguous.

### Reliability of reported performance information

21. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of

actual achievements against planned objectives, indicators and targets. Overall, 52% of the targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for 48% of the targets. In addition, 4% of the targets were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and inadequate reviews of the validity of reported achievements against source documentation.

## Local economic development

### Usefulness of reported performance information

#### Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned indicators and targets

22. Section 41(c) of the MSA requires the integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 50% of reported objectives, 71% of reported indicators and 71% of reported targets were not consistent with those in the approved annual performance and service delivery agreement. This was due to inadequate review of the annual performance report by management to ensure alignment to the SDBIP.

#### Changes to indicators and targets not approved

23. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to the indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to inadequate review of the annual performance report by management to ensure alignment to the SDBIP.

## Additional matters

24. I draw attention to the following matters.

### Achievement of planned targets

25. Refer to the annual performance report on pages xx to xx and xx to xx for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 17 to 23 of this report.

### Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Basic service delivery and Local

economic development objectives. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

## **Compliance with legislation**

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements and annual reports**

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
29. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

### **Audit committees**

30. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by the Municipal Planning and Performance Management Regulations (GNR 796 of 24 August 2001) (MPPMR) 14(4)(a)(iii).

### **Procurement and contract management**

31. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by the Municipal supply chain management regulations (GNR 868 of 30 May 2005) (SCM) 17(a) and (c).
32. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
33. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

### **Expenditure management**

34. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

### **Consequence management**

35. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## Strategic planning and performance management

36. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring and review as required by section 38 of the MSA and regulation 7 of the MPPMR.

## Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

38. Council and the accounting officer did not provide adequate oversight responsibility to ensure that measures were taken to address previous findings on material misstatements to the annual financial statements, reporting on predetermined objectives and compliance with applicable legislation.

## Financial and performance management

39. The record keeping system of the municipality was inadequate to support financial and performance reporting and adherence to applicable legislation. There were inadequate monitoring processes to ensure the consistency of planned and reported objectives, indicators and targets.

## Governance

40. The late appointment of internal audit and audit committee had an impact on audit committees' ability to provide adequate oversight over compliance with laws and regulations, credibility of financial and performance information, as well as the effectiveness of action plans so as to prevent the recurrence of prior year audit findings.

## Other reports

### Investigations

41. An independent consulting firm had been performing an investigation at the request of the municipality, which covered the period 1 April 2012 to 31 April 2013. The investigation was initiated based on allegations of misconduct against certain officials who are alleged to have caused the municipality financial prejudice. The investigation was in progress as at year end.

*Auditor-General*

Pietermaritzburg

30 November 2015



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